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ABSTRACT

One viable economic development option for rural areas is the creation of business incubators--facilities that aid in the early stages of growth of an enterprise by providing rental space, services, and business assistance. Business incubators promote community development by diversifying the economic base, enhancing the community's image as a center for innovation and entrepreneurship, and creating jobs. Most business incubators are located in urban areas, but in the past two years several rural incubators have been initiated including projects in aging industrial areas and rurally isolated non-industrial areas of Western Illinois, Northwest Pennsylvania, Ohio, and Missouri. In planning and operating these rural incubators, development officials have had to consider the number of potential clients in the area, marketing strategies for the incubator, and the level of economic and community support available for incubator development. These considerations varied in relative importance depending on the type of rural area the incubator was located in, its degree of affiliation with a university, and the type of incubator facility, e.g., manufacturing, retail, or high technology. Strategies to overcome the problems associated with rural business incubators included aggressive marketing plans, commercialization of university research, and diversification of funding sources. (JHZ)

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Introduction

Public administrators are increasingly responsible for decisions regarding the economic growth of their communities as the number of government development programs continues to expand. One new strategy for the economic development of communities is creation of business incubators. Business incubators are facilities that aid in the "early stage of growth of an enterprise by providing rental space, services and business assistance." Business incubators can be publicly-owned, university-affiliated, run by non-profit corporations, or owned and operated as private corporations, such as the incubators established by the Control Data Corporation. Incubators promote development by increasing the utilization of vacant property in a community, diversifying the economic base of a community, enhancing the community's image as a center for innovation and entrepreneurship, and increasing employment opportunities.

The dramatic increase in the use of business incubators by communities reflects a renewed policy emphasis by governments on small business development. This is due to recognition that small businesses, rather than major corporations, generate the vast majority of new employment opportunities. In addition, local governments and development organizations have shifted away from the seldom successful practice of recruiting major firms. Furthermore, business incubators are an especially attractive job creation tool, because they overcome one of the major limitations of economic policies that focus on small business development. Three out of four small businesses fail during their first three to five years. The major

causes of business failures are poor management of the firm and marketing of its product and lack of adequate working capital and capital investment. Business incubators have been able to reverse this trend by providing business management, marketing and financial assistance to small businesses on a systematic basis. Experience has shown that three out of four new businesses located in incubators are still in operation after three years.

The services and management assistance provided by incubators are varied. They can include entrepreneurial training, product evaluation, forecasting, assessment of technical and commercial risks, marketing assistance, financial, managerial and personnel assistance, patent assistance, governmental regulation and legal assistance. These services are provided either directly by incubator center staff, other incubator clients, or through contractual arrangements with outside consultants, university personnel or retired business personnel. They are provided on a paid or volunteer basis.

Most incubators are public or private non-profit corporations. However, almost all incubators involve the use of public funds. Public financing for incubators comes from a variety of sources including Community Development Block Grant (CDBG), Economic Development Administration (EDA), Appalachian Regional Commission (ARC), Jobs Training Partnership Act (JTPA) funds, Industrial Revenue Bond (IRB) financing, or Small Business Administration (SBA 503) funds. Most of this funding is for fixed assets for the incubator facility or for incubator clients. Additionally, several

states have passed or are considering passage of legislation that would provide funds directly to incubators or create seed or venture capital funds for incubator center clients.

Most business incubators are located in urban areas, but the use of incubators is spreading to rural areas as well. This paper addresses the use of business incubators as an economic development tool in rural areas. We will review several recent experiences with incubator development in rural areas and discuss special considerations these centers had to address during planning and operation phases because of their locations. The basis for this discussion is a review of available documentation of rural-based incubators, telephone interviews with managers of incubators, and our own knowledge of incubator development in Southeastern Ohio.

Business Incubators in Rural Areas

Several rural incubator projects have been initiated in the last two years. These projects include the development of incubators in Western Illinois, Northwest Pennsylvania, Ohio and Missouri. The incubator projects in Western Illinois are nonprofit incubators being developed by Control Data Corporation in a geographically isolated area of the state. Two of the incubators in this project are not directly affiliated with a university. The incubators in Western Pennsylvania are being developed under the Northwest Pennsylvania Incubator project and are located in an aging industrial area. These incubators are not in Standard Metropolitan Statistical

Areas (SMSAs) but are close to major cities. The incubator projects in Missouri and Ohio are in rurally isolated non-industrial areas, but are both university-affiliated. Differences in the location of the incubators, status of university affiliation, and type of incubator facility presented different challenges to the developers of the incubators. These differences will be discussed following a brief description of the incubator projects.

Northwest Pennsylvania Regional Incubator Project

The Northwest Pennsylvania Regional incubator project started in 1984 with plans for four incubator facilities, three industrial or light manufacturing incubators and one retail incubator. This project received major funding from ARC following a study of the regional economy by Pennsylvania State University. The Retail and Office Incubator was established in Warren, which has a population of 12,146. The Crawford County Industrial Incubator was started in Meadville, which has a population of 15,544. The Girard Commons Center for Enterprise Development was initiated in Girard, which has a population of 2,615 and an incubator was planned for Newcastle which has a population of 33,621. The Newcastle incubator never opened.

The Meadville incubator currently has two clients. The Meadville incubator received JTPA and IRB monies in addition to ARC funds. This incubator provides a central reception area, equipment rentals, shipping and receiving docks and rail service. Business assistance is available through the Meadville Industrial Development

Corporation.

The Girard incubator was funded using ARC, IRB and city funds. The incubator provides typing, copying, conference and reception services and equipment rentals. Rent at the incubator is well below market rate and includes utilities and custodial services. A management team at the incubator provides business planning, loan packaging, product development and marketing assistance. The incubator currently houses 18 tenants including light manufacturing, injection molding, tool and die and engineering firms. The developers of the incubator project project that these businesses will employ 600 people by the end of 1986.

Warren's incubator was originally owned and managed by the Economic Opportunity Council of Warren County and the Private Industry Council. In January of 1985, it was sold to a private owner. Unlike the other incubators, this facility is a retail incubator. It includes six retail and one fast food client. An insurance firm acts as an "anchor" tenant. The retail nature of the incubator distinguishes its operation from the other incubators in the project in a number of ways. The Warren incubator encourages movement into the community at an accelerated pace. Businesses are encouraged to move into the community as soon as they are strong enough to do so. Leases do not specify a time period that a client can remain in the incubator or facility. Also, unlike other incubators in the project, the Warren facility does not provide traditional support services to its clients, but focuses on maintaining the attractiveness of the facility. Funds from the sale

of the incubator will be reinvested in economic development projects in the community.

The Northwest Pennsylvania Regional Incubator Project is also working with Clarion University in Clarion, Pennsylvania to develop a high technology incubator, witht he city of Greenville to open a high technology incubator and with Franklin _____ and the Chicago Pneumatic Tool Co. to open a manufacturing incubator.

Many business incubators are university affiliated. University participation in incubators can range from provision of assistance by university business schools or engineering departments to university operation and ownership of the facility. Most university incubators are high-technology oriented. The history of university- based incubators dates to a 1973 National Science Foundation Innovation Centers program, in which NSF funded experimental innovation centers at several universities in the United States. This successful program laid the basis for further university-based incubator development. Two of the more famous projects are the Utah Innovation Center (currently a private-profit corporation) and the Advanced Technology Development Center associated with Georgia Institute of Technology. As is the case with most incubators, the majority of university-based facilities are located in urban areas, though several rural university-based incubators are currently being planned or have recently come into operation. Two of these new projects are described below.

Incubator Technologies, Inc.

In 1984, Incubator Technologies Inc., formerly the Missouri IncuTech corporation, was created to coordinate the resources of the south-central region for economic development. Incubator Technologies, Inc. undertook a study funded by a Phase I Small Business Innovation Research (SBIR) grant to determine the feasibility of developing a high-technology incubator in Rolla, Missouri. The study focused on the size of the market for an incubator in Rolla, the best methods to attract firms, and the requirements of high technology firms. A survey was conducted of high technology startups developed in the last ten years in 57 rural university settings across the United States. The survey results suggested that incubator development was feasible for Rolla and other rural university settings in the United States.

The incubator, initiated following the study, is a for-profit facility with one client. It is affiliated with the University of Missouri at Rolla through the Center for Technological Development. The university recently surveyed its (1980-84) alumni to recruit potential clients and employees for the center.

The State of Missouri funded the project through CDBG funds. State officials wanted the university to be involved in providing resources, space and services for the incubator. However, these officials were wary of potential problems that could result from state institution involvement in businesses, and believed that academic institutions were not the best organizations for making crucial and timely business decisions. Continued funding for the

incubator will come from state legislation that budgeted $600,000 during the current fiscal year to support four centers statewide.

Ohio University Innovation Center

In contrast to the Missouri IncuTech experience, the Ohio University Innovation Center, created in 1983, is university-owned and operated. Funding for the center comes from a state budget appropriation. Funding for center clients has come from the State of Ohio's Thomas Alva Edison program and the Small Business Innovation Research program (SBIR). The center is high-technology oriented; retail and consulting service clients are excluded, and clients must be working toward the commercialization of a specific product. Like most other incubators the Innovation Center can charge tenants a market or subsidized rate for basic services. But it also offers a comprehensive package of services to clients in the center in return for an equity position in the firm. Expenses for firms include only the costs of specialized services or equipment, advertising and employee wages and benefits. The Innovation Center has nine clients.

Western Illinois-Control Date Projects

The Western Illinois incubator projects, two of which involve universities, are located in four cities: McComb, home of Western Illinois University, population 18,000; Monmouth, home of Monmouth College, with a population of 11,000; Quincy, with a population of 60,000; and Galesburg with a population of 38,000. These cities are geographically isolated and cannot draw on the resources of a nearby

major city. The smaller cities, McComb and Monmouth, are in the final stages of rehabilitation of their incubator facility. The project is unique in that all of the incubators are being developed under a special licensing arrangement between the Control Data Corporation, Illinois' Department of Commerce and Community Affairs and the four cities. All of the incubators are nonprofit, whereas Control Data's experience has primarily been with the development of privately owned and operated incubators. Control Data provides management and technical assistance to each incubator. Each city was charged a $75,000 fee to set up the incubator. These fees were paid in the past from funds by the state and through local use of JTPA funds. The McComb incubator is located in a dormitory donated by Western Illinois university. Monmouth's incubator is located on a 7.6 acre site with five abandoned buildings. The Quincy and Galesburg projects are in assessment stages and have not currently acquired sites. Costs for site acquisition and renovation have largely come from small cities CDBG funds.

At this point in time fees and services for these projects have not been concluded. A two-tier fee structure is planned. Market rate fees will be charged professional service tenants such as lawyers' offices. Below-market rate fees will be available to tenants that have a completed business plan, are not in competition with other firms in the community, and can show that they will expand their businesses and employment opportunities.

Services will include a central receptionist, telephone and computer equipment access, and legal and accounting services on a

limited basis. The communities' Chambers of Commerce will be located in the incubators and provide various services to clients.

Planning Business Incubators in Rural Areas

In planning and operating incubators in rural settings development officials have had to consider the number of potential clients in the area and subsequent marketing strategy for the incubator and the level of economic development infrastructure and community support available for incubator development. These considerations varied in relative importance for each community depending on the type of rural area the incubator was located in, its degree of affiliation with a university, and the type of incubator facility, e.g. manufacturing, retail or high technology.

The number of potential clients for an incubator in a rural area can be severely limited. All the facilities discussed here except the Northwest Pennsylvania project saw this as a real problem. In the case of the Ohio University Innovation Center, the total non-student population of the city is 8,000 with a total county population of only 56,000. The city's economic base is limited in terms of the absolute number of firms, the economic diversity of Athens and the industrial mix of Southeast Ohio. Managers for the Western Illinois and Rolla projects face the same geographic circumstances as does the Ohio University Innovation Center. The Northwest Pennsylvania incubators were not experiencing difficulty in attracting clients because they are located in areas adjacent to larger cities and because the region's industrial base, while aging,

is nonetheless significant.

A consistent strategy of officials in these projects aimed at overcoming the low number of potential enterpreneurs in their area was to develop an aggressive marketing strategy. Yet, the very ability of these centers to market their incubators is limited as they lack access to a regional or national media network. In several cases urban based incubators have not even had to advertise for clients because media coverage of the incubators generated sufficient client applications for the center. Monmouth has a marketing strategy focused on turning the potential disadvantages of a rural location into advantage to attract clients. Monmouth stresses the amenities which come from living in rural areas, and the potential gains business enterpreneurs can receive from the profit they realize when they sell their house's in a urban area and buy a less expensive but comparable house in a rural area. Another advantage of a rural area (stressed by Monmouth officials) is the fact that in a small town the services available to a business, while more limited are also more easily coordinated into an accessible network, unlike a urban area where service fragmentation exists.

In the case of the Western Illinois project, officials are hoping to model the marketing success of the incubator in Pueblo, Colorado, a Control Data project, even though Pueblo is significantly larger than Monmouth, 100,000 compared to 11,000. Pueblo has the same problem that Monmouth has, competing with larger urban areas and trying to market a small, somewhat isolated area. Pueblo has a dynamic marketing strategy, where the city has been successful in

promoting the Pueblo Business and Technology Center in regional business publications. These rural based incubators without university affiliation have to be more flexible and not restrict certain areas of business such as the traditional exclusion of retail businesses. They also have to carefully gear their incubators to the type of businesses the area could support.

To overcome the problem of a low potential clients pool, the Ohio University Innovation center focuses on the development of entrepreneurial enterprise from university research along with an aggressive marketing plan. This strategy has proved successful. Of the five clients in the Innovation Center, four are direct results of research activities that were going on at the university. This potential is available to other rural incubators affiliated with major research universities.

The incubator at Rolla, affiliated with the University of Missouri at Rolla, plans to commercialize university research activities as well. Also, their study of other rural-university based technology in the United States led them to conclude that the presence of the university increased the chances of developing a high technology business incubator in a rural area.

A final major concern of rural incubator developers is the lack of an adequate public and private economic development infrastructure in rural areas. Most large cities have development departments with directors and qualified staff who assure access to state and federal funding for development projects. Many rural areas do not have the resources to have development staff or the experience with

development projects that larger areas do. Providing money to hire an economic development professional is beyond the means of these areas, which have small budgets. For Monmouth to start the incubator it was necessary for the city to undertake a local drive patterned after a United Way Appeal campaign. The city was successful in raising $200,000 from businesses, residents, banks and major companies. However, the level of community commitment to this project was unusual.

Economic development infrastructure is measured not only by the availability of government services and resources, but also by the presence of private capital and a willingness to invest. Most rural areas do not have large banks with the available resources needed for business expansion. Similarly, they do not have access to venture capital funds available in larger areas, nor do rural banks participate in complex loans in which another entity guarantees a loan or funds part of a development project. A recent study of complex loan involvement by banks in rural Wisconsin found that most banks had little experience in making complex loans, i.e. 47 percent made no loan guarantees, 59 percent sold no loans, and only 40 percent of the banks surveyed made any loans over their legal limit. Only a handful of banks accounted for the large portion of business loans.

What Can Be Done?

To increase the resources available to rural communities for incubator development, local governments have several options. They can raise funds from the community as in Monmouth. Rural business

loan funds can be established using EDA or Health and Human Services funding. CDBG and ARC funds can be used for facility renovation. In Ohio, the ARC regional development districts have expressed interest in incubator development based on the use of ARC funds in Pennsylvania. States' legislatures can be persuaded to establish funds for incubator development and maintenance, and seed and working capital with a portion of these funds set aside for rural areas so that these areas do not have to directly compete with larger urban areas for these funds. To increase the amount of technical assistance available for incubator development, local governments in rural areas must make increased use of university services and facilities where available. University law facilitate the development of incubator networks so that rural communities can pool incubator information and resources. For example, in Athens, Ohio University is working with four communities in the region to plan and bring about incubator development under a HUD/State of Ohio Technical Assistance demonstration project. Also, the University and State Department of Development recently sponsored incubator conferences to foster the creation of an incubator network for small communities in the state.

Business incubators appear to be a viable economic development option for rural areas. Government and development officials and administrators need to carefully review the economy of the area, and the level of government and community support before deciding on what type of incubator to build in their community, if any.

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